OUR FLIGHT PATH

As we move forward in 2001, Spar is aviation services.
Our transformation is complete.

SPAR AEROSPACE LIMITED
ANNUAL REPORT 2000

Chairman's Message

From the perspective of the Board of Directors of Spar, our most pressing mission has been accomplished. In 1999, we set a course to improve shareholder value. In 2000, we succeeded in delivering considerable value, with a $1.00 per share return of capital, implementation of a normal course issuer bid, and payment of dividends, fully supported by cash flow.

Management completed the transformation of Spar to a focussed operating company in aviation services, while delivering strong financial results.

On December 31, 2000, Colin Watson, Vice Chairman of Spar, retired as Chief Executive Officer, a position he held since 1996. Colin's contribution to Spar's restructuring was fundamental to the realization of shareholder value. Furthermore, Colin was instrumental in Spar's acquisition of the C-130 repair and overhaul business, which has become an integral part of Spar. I thank him on behalf of the Board and all shareholders and look forward to his continuing involvement as Vice Chairman and Director.

On January 1, 2001, the Board of Directors appointed President Anthony Caputo as Chief Executive Officer of Spar. We salute him, his management team and all employees for their hard work, loyalty and ongoing efforts in the interests of shareholders and customers.

We have been actively looking at acquisitions and we have identified and have engaged in discussions with several companies. It is a requirement that any acquisition must be accretive and add to shareholder value.

The recent increase in the quarterly dividend to $0.21 from $0.19 reflects the Board's confidence in the quality of our earnings and the company's prospects for continued profitable growth, both internally and through acquisition.

Spar is moving forward with a strong and seasoned management team, significant financial resources and exceptional opportunities in a global growth industry. We look forward to further progress in 2001.

ERIC ROSENFELD
CHAIRMAN

SPAR IS AVIATION SERVICES

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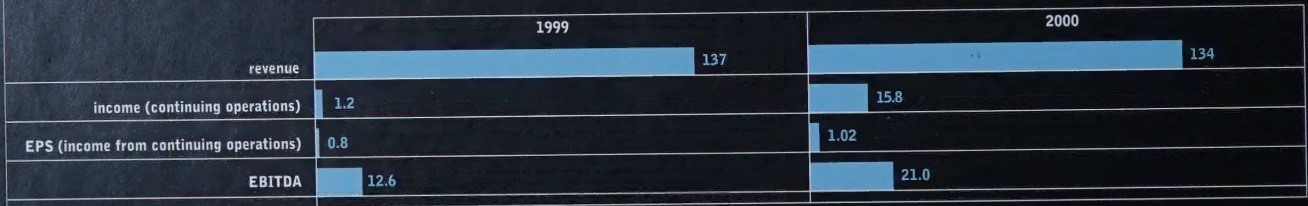
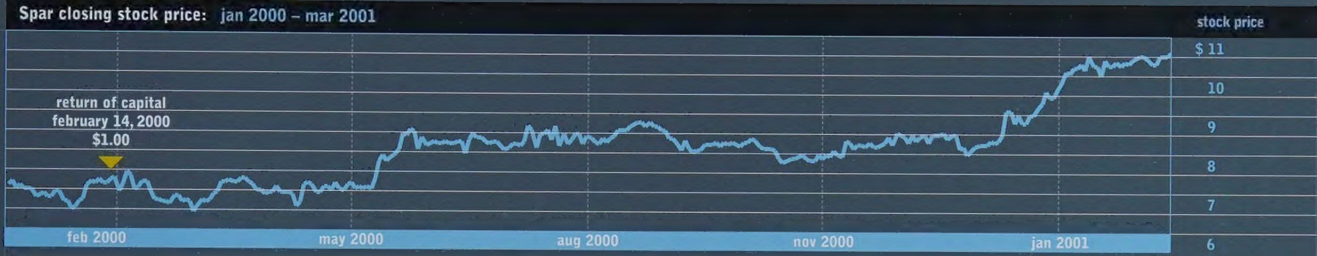
"2000 is the year when aviation services became Spar."

- The former Aviation Services Division became Spar
- Spar had a financially strong year in 2000, as margin improvements enhanced profitability
- We strengthened our commitment to aviation services and made significant inroads in the commercial market
- We resumed our flight path in a growth industry

financial highlights ($ millions, except EPS)



The Evolution of Spar



Prior to February 14, 2000, stock prices are adjusted for the $1.00 per share return of capital.

1996–1999
• divestitures
• volatile returns
• multi-focussed

2000	($ millions)
• order intake	135
• operating income	18.3
• cash*	50.2

* cash includes cash and cash equivalents and short-term investments

future
• internal growth
• acquisitions
• increase value

"At Spar, our transformation from conglomerate to focussed operating company is complete, and our flight path in aviation services is staying on course."

The Transformation of Spar

Spar has a proud and strong legacy in aviation services—a legacy that has been somewhat overshadowed by wireless communication and aerospace interests. Less is known about the heritage of Spar's aviation services—the core business focus of Spar today.

In the aerospace arena, Spar helped Canada become the third nation in space, designed and built communications satellites and developed the famed "Canadarm"—the robotic arm used on the space shuttle. These activities made Spar a household name in Canada and around the world.

"When we peel the conglomerate away, we see a very strong growth line for the Aviation Services Division."

Upgrading, repairing, maintaining and overhauling aircraft—the business of aviation services is a business that Spar entered in the 1960s, and by the '90s, aviation services had become Spar's strongest division in terms of stable earnings and growth potential.

As Spar's aerospace and wireless communication businesses were affected by the global market dynamics, aviation services grew and thrived through the '90s, culminating in the acquisition of CAE Aviation in 1998. At that time, Spar's restructuring was underway. Aerospace and communication interests were sold off, and by the end of 1999, aviation services had become the core business focus.

Our legacy in aviation services is one of growth—profitable growth—in businesses that provide a vital service for our customers. We enhance aircraft, we keep them flying and we do it well. We have established a strong position in the industry, and share the Spar legacy of quality and technological achievement.

Our roots in aviation services stretch back 30 years... our growth performance track record as a significant player stretches back to the mid-'90s... and our flight path stretches forward.

1 WHERE WE HAVE BEEN

Our Industry

At Spar aviation services, we maintain aircraft, extend their lives, keep them flying and upgrade them with avionics that enhance their capabilities. Thus, we operate in an industry that encompasses the entire global fleet of aircraft—military and commercial, fixed wing planes and rotor wing helicopters.

The total market potential for aviation services has been estimated in the trillions of dollars. Military expenditures on aviation services will continue to grow to meet more stringent air traffic management requirements. International commercial aviation services revenues are projected to reach $36.5 billion by 2005 with heavy airframe maintenance growing at 4.7% to $6.6 billion. Smaller single-aisle aircraft such as the B737's that Spar services are projected to make up more than 50% of the global fleet.

For Spar's major platforms—C130, B737, and Sea King—the current global market size is in the area of $2.5 billion expanding by 5% per annum. Forces that are driving the growth of our industry on the demand side include:

- new aircraft production and the growth of passenger traffic
- the aging of the global fleet—with ongoing requirements for upgrades, overhauls, maintenance and repair; with current demands for aircraft to fly longer and safer
- the outsourcing of aviation services businesses—by military fleets, commercial airlines and OEM aircraft manufacturers

These forces are creating new, long-term opportunities for businesses focussed on aviation services.

2 WHERE WE ARE NOW

Spar is Aviation

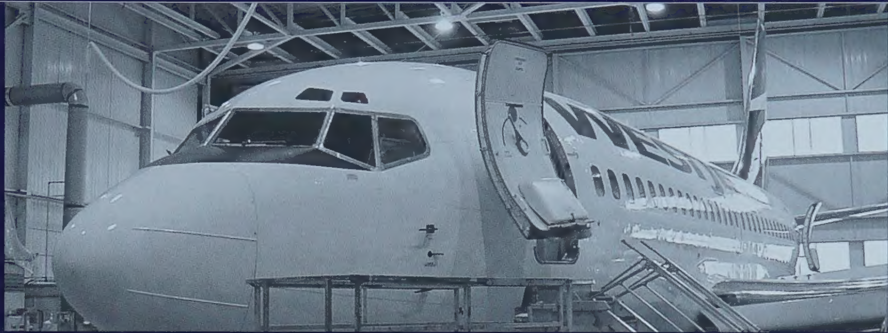
In its simplest form, today's Spar is an aviation services company with close to 1,000 skilled employees, major facilities in Alberta and Ontario, a diversified military and commercial customer base, and markets in Canada, the United States and offshore.

Spar's current aviation services business can be defined by its aircraft platforms, core business lines and geographic markets.

OUR AIRCRAFT PLATFORMS INCLUDE:

- the C130 Hercules—a military aircraft for which we provide services to the Canadian military, and also to the air forces of Jordan, Brazil, Mexico and Australia.
- the Sikorsky S-61/H-3 helicopter (Sea King) dynamic components for which we provide services to the Canadian military, the U.S. Navy, and the Brazilian and Royal Malaysian Air Forces.
- the B737 and B727, for which we provide services to a growing number of airlines and leasing companies.
- other selected fixed and rotary wing aircraft.

Our technology platforms, business lines, markets and service approaches compose a solid and profitable business model in aviation services. More importantly, they create a solid foundation for growth and expansion as we move forward on our flight path.



OUR BUSINESS LINES INCLUDE:

- Aircraft Programs—involving engineering support, depot level maintenance and avionics updates, with facilities in Calgary and Edmonton, Alberta

- Component Maintenance, Repair and Overhaul—specializing in dynamic components of the Sea King helicopter, with facilities in Mississauga, Ontario

- Support Services—specializing in integrated logistics support—program management, supply chain management, life cycle management and depot level maintenance for the NATO AWACS

Spar's Flight Path

As the trend line of our flight path indicates, the sky is the limit for Spar. We are in a growth industry, serving growth markets, and we are good at what we do. We have emerged from the transition as a strong and focussed company with people who know the industry and with the commitment and resources to grow and prosper. We are actively seeking global opportunities ... seeking out higher value business ... seeking out more commercial business.

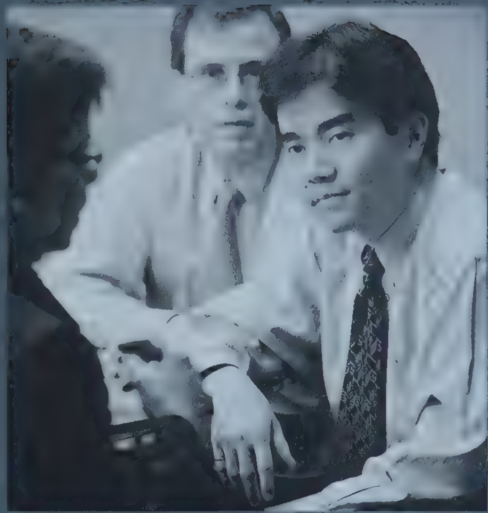
We currently have three major technology platforms. We can expand these by acquisitions, and add service dimensions to existing platforms. This combination of acquisition and internal, organic growth will enable us to expand our service capabilities. And we can emphasize and expand in the higher value-added business and product lines such as avionics upgrades.

> "Spar is moving ahead in 2001 with a clear business focus and improved efficiencies."

As well, forging alliances with aviation service organizations domiciled in other nations will provide an entry to foreign markets.

3 WHERE WE ARE GOING

As we grow—internally and through acquisition—we will gain scale and synergies. That means the opportunities will expand exponentially, as we will have the potential to gain larger contracts and achieve greater geographic diversity and customer base diversity.



"Our flight path is set and we are staying the course."

President's Report

In December of 1999, after reviewing strategic alternatives, the Board of Directors selected the management plan as the best way to deliver shareholder value. In essence, management's plan was to give Spar the profile of the former aviation services division and apply the corporate resources to accelerate growth.

In the year 2000 we took the first step; specifically, our objectives were:

- **complete the transition from diversified aerospace company to focussed aviation services operating company**
- **relaunch our core aviation services business**
- **strengthen financial results to deliver shareholder value**
- **restore the growth track that had characterized the Aviation Services Division from 1995 to 1999**

In pursuit of these priorities, we achieved the following:

We consolidated Spar's corporate infrastructure with the divisional infrastructure of the Aviation Services Division—to gain a clear business focus and improve efficiencies, generate savings and deliver value. The result was a highly positive impact on corporate costs and operating margins.

We transitioned to a focussed operating company, exiting non-core product lines and facilities, and still maintained the level of revenues achieved in 1999. This was achieved despite market uncertainty in the latter half of 1999 regarding Spar's future—uncertainty that inhibited customer development and negatively impacted staff morale. Our strong marketing efforts generated

"Our Aviation Services Division was a strong, stable performer, which grew five-fold between 1995 and 1999..."

ANTHONY CAPUTO

significant new contracts and increased penetration of the commercial market. We achieved revenues of $134.4 million in 2000—within 2% of the 1999 level—and we restored the order backlog to previous year-end levels.

We enhanced profitability. Higher gross margins and reduced operating expenses combined to drive an 80% rise in operating income. We are positioned to maintain this level of profitability as we resume our pre-1999 growth trend.

We delivered considerable shareholder value. Our vision of building a superior aviation services company is fully consistent with the creation of shareholder value. During 2000, we established a strong dividend program funded by healthy cash flow. We contributed to Spar's exceptional financial strength by strategically managing our working capital and collecting outstanding promissory notes. Spar is debt free and has the financial resources to fund expansion and acquisitions.

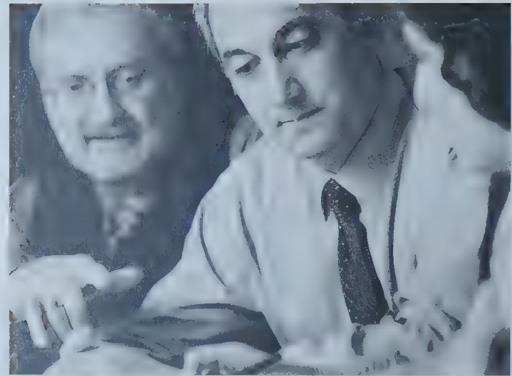
"...we plan to accelerate growth through acquisition."

To gain perspective on the achievements in 2000 and Spar's prospects moving forward, we must look back at the evolution of the Aviation Services Division. Until 1999, the Aviation Services Division was but one part of a diversified company that had a range of interests, primarily in space and telecommunications.

While shareholders were disappointed with Spar's overall results Aviation Services grew five fold between 1995 and 1999. Organically and through acquisitions, the Aviation Services Division delivered strong, stable operating results.

Going forward our goal is to scale Spar to three times its size in three years. We believe we have positive market conditions, a proven plan and the people and resources committed to carry it out.

KEY GROWTH STRATEGIES



Having completed the transition and re-launch of the Aviation Services Division, revenue growth has become a key priority. Our target over the next three years is to triple the size of Spar through internal growth and acquisitions, as underlying demand for aviation services—including avionics upgrades—has been growing at the rate of approximately 5% per year. We are well positioned in key growth markets and discriminate ourselves from a product point of view.

As we grow internally in key business areas including commercial aircraft, the attraction, retention and development of skilled personnel is a key priority. Spar's workforce is the source of considerable competitive advantage, and we aim to build on that advantage. To this end, we appointed a seasoned HR executive as a member of our management, and have placed major emphasis on human resource development.

Spar is well positioned to take advantage of these organic growth opportunities, given our track record of growth, seasoned management team, technical expertise, and globally recognized quality standards.

In addition to internal growth, we plan to accelerate growth through acquisition. We have significant financial resources at hand to pursue an aggressive acquisition strategy, and our acquisition criteria are straightforward. We are seeking out opportunities to gain scale, add technology platforms and enter new markets while delivering value to customers and shareholders.

In 2000, we resumed the pursuit of strategic acquisitions, and identified a number of candidates. Our due diligence process has been rigorous, as we are committed to ensuring that each candidate is the right match for Spar. The process is ongoing.

"Spar is well positioned to take advantage of these growth opportunities—in Canada and around the world..."

ANTHONY CAPUTO

OUTLOOK

Spar is moving ahead in 2001 with improved efficiencies and a clear flight path. Through internal growth alone, we expect to generate increased revenues and earnings in 2001. We plan to accelerate organic growth through appropriate acquisitions.

Spar has the mandate, the resources, the focus, the people, the strategies, and — most importantly — the vision and commitment to move forward in a highly attractive growth market.

ANTHONY CAPUTO
PRESIDENT AND CHIEF EXECUTIVE OFFICER

performance vs. objectives

2000		2000	
✔	transition to one company	✔	improve profits
✔	re-launched core aviation services business	✔	restore backlog
✔	strengthen financial results	✔	penetrate commercial market
✔	restored growth track		

“We can create shareholder value by building a superior aviation services company.”

ANTHONY CAPUTO

Management's Discussion and Analysis

Management's discussion and analysis of the results of operations is a review of activities and results for the year ended December 31, 2000 as compared to the previous year; and a review of the activities and results for the fourth quarter of the year ended December 31, 2000. Comments relate to and should be read in conjunction with the audited financial statements.

Certain statements in this management discussion and analysis may contain forward-looking information that involves assumptions and estimates that may not be realized, as well as other risks and uncertainties. The inclusion of this information herein should not be regarded as a representation by the Company or any other person that the anticipated results will be achieved; investors are cautioned not to place undue reliance on such information.

BUSINESS OF THE COMPANY

In 2000, Spar's sole business was aviation services. From its inception Spar has been involved in the aviation services industry. The Company provides maintenance, repair and overhaul services and system upgrades for several fixed and rotary wing aircraft. Spar's operations are primarily concentrated in North America, with only 9% (1999 – 8%) of revenues derived from outside of North America.

Spar substantially completed its restructuring and reorganization in 2000, following a thorough analysis in 1999 of the Company's operating assets, liabilities and prospects. The Company, with its renewed focus and commitment to aviation services, is well positioned to restore growth and capitalize on the emerging opportunities in the aviation industry.

There are three major trends in the aviation services industry:

Outsourcing: As operator companies (e.g., airlines) become increasingly focussed on core competencies, and defense departments face continued budget reductions, the demand for outsourced services increases.

Industry consolidation: Operator companies are increasingly looking to companies that can provide integrated, turnkey services.

Aircraft growth and aging: The volume of passenger traffic continues to grow and the worldwide fleet of aircraft continues to increase in size and age increasing the demand for maintenance, repair and overhaul services.

In order to capitalize on these market opportunities, Spar is pursuing international alliances and acquisitions, and developing and marketing offerings that are intended to increase customer value.

The Company believes that acquisitions and alliances will allow the business to meet three critical objectives:

(i) gain market access to new customer groups

(ii) acquire complementary competencies

(iii) gain scale that will allow the Company to pursue larger opportunities

While the growth-through-acquisitions strategy adopted by Spar creates significant opportunity, it also involves a measure of inherent risk. Specifically, a successful acquisitions strategy requires the ability to identify synergistic targets, conduct thorough due diligence and integrate acquired businesses seamlessly. The Company believes that it is well equipped to implement its growth strategy.

Spar manages its business in a single operating segment—aviation services—and is engaged in three principal lines of business: Aircraft Programs; Component Maintenance, Repair and Overhaul; and Support Services.

Aircraft Programs work is carried out in Edmonton and Calgary. The Company provides aircraft maintenance, system upgrades and publication services for a variety of commercial and military aircraft, including the Boeing 737 and Lockheed Martin C130 Hercules military transport. The Company is one of only 12 Hercules service centers worldwide.

The Component Maintenance, Repair and Overhaul line of business provides services to the Canadian Forces Sea King fleet, the U.S. Navy's fleet of H-3 helicopters, and several international operators, namely the Brazilian Navy, the Royal Malaysian Air Force and the Royal Australian Air Force.

The Support Services line of business provides aircraft maintenance, storage and disposal, engineering, and related support services at the Canadian Forces Base in Trenton, Ontario. As well, Spar shares an interest with four other European firms in the International Aerospace Management Company (IAMCO) based in Venice, Italy. IAMCO manages the depot level maintenance program for the NATO fleet of Boeing 707 Airborne Warning and Control Systems.

YEAR ENDED DECEMBER 31, 2000 COMPARED WITH YEAR ENDED DECEMBER 31, 1999

Operating Results

The following summarizes the Company's comparative operating results.

($ millions)	2000	1999
Revenue	$ 134.4	$ 136.6
Gross margin	37.9	33.4
Capital expenditures	1.2	1.4
Total assets	151.8	178.1
Backlog	90.2	91.5

Revenues remained relatively consistent; however, profit increased significantly as overhead expenses were reduced and low margin programs or breakeven programs in 1999 were replaced with higher margin work. At the same time, the Company's backlog was restored. The Company has a strong balance sheet, with no debt and $50.2 million cash and cash equivalents and short-term investments on hand. The Company is well positioned for growth,

both internally and through acquisitions. During 2000, the Company continued to focus on its long-term business strategy, which included capitalizing on commercial outsourcing trends and defense department privatization programs, expanding existing capabilities to offer broadened customer services, and expanding operations internationally.

Revenue of $134.4 million decreased slightly from 1999 revenue of $136.6 million. In accordance with the restructuring plan approved in December 1999, the Pointe Claire, Quebec facility was closed, and the Piqua, Ohio operation was sold. Despite this consolidation, the Company was able to substantially maintain revenue.

Spar's operating income percentage, before restructuring charges, increased to 13.6% of revenue in 2000, from 7.5% in 1999. This improvement was primarily as a result of higher gross margins achieved in the Component Maintenance, Repair and Overhaul line of business and the reduction of corporate office expenses. In both areas, fixed and variable overhead expenses were reduced as part of the restructuring in order to better align overhead and infrastructure costs with the current level of business.

Gross margin increased from $33.4 million in 1999 to $37.9 million in 2000. This represented a margin increase of 13.6% to 28.2%, from 24.4% in 1999. The increase was due to a shift in program mix. The low margin Avionics Upgrade Program (AUP) neared completion in fiscal 2000.

Administrative and selling expenses of $15.8 million decreased by $2.5 million in 1999. The reduction was due to the realignment of operating units and streamlining of the corporate office. As a percentage of revenue, administrative and selling expenses decreased by 13.9% to 11.75% of revenue in 2000 compared to 13.4% in 1999.

Depreciation and amortization decreased by $1.0 million to $3.8 million in 2000, from $4.8 million in 1999. The write-down of both capital assets and goodwill totalled approximately $3.0 million during the year, and reduced assets available for depreciation.

Operating income, before restructuring costs, increased by $8.0 million to $18.3 million in 2000, from $10.3 million in 1999. This resulted from the improved gross margin of $4.5 million and reduced operating expenses of $3.5 million.

Restructuring costs in 1999 of $11.6 million related to the consolidation and integration of the corporate office and the streamlining and rationalization of product lines and facilities. These activities were substantially complete by 2000 year end. At December 31, 2000, a restructuring provision of $5.5 million remained, with the balance subsequently reducing to $2.3 million by January 31, 2001. The $2.3 million balance outstanding relates primarily to Corporate office consolidation and facilities-related costs.

Interest income related to continuing operations of $4.1 million decreased by $1.0 million, as compared to $5.0 million in 1999.

The 2000 amount relates to interest earned on cash and cash equivalents and short-term investments and on the following notes receivable, outstanding during the year:

- 5.5%, $10 million notes from Electro Magnetic Sciences Inc. (EMS) on the sale of the Satellite Products business unit in January 1999. At December 31, 2000, $5.0 million of the notes were outstanding (see note 12).
- 8.0%, $31.5 million note from MacDonald Dettwiler and Associates (MDA) on the sale of the Space Robotics business unit in May 1999. The note, including interest of $2.5 million, was fully paid on May 7, 2000.

The 1999 amount related to interest on cash and cash equivalents and on the following notes receivable, outstanding during the year:

- 8.0%, $10.8 million note from Radyne Corp. on the sale of ComStream Corporation shares in October 1998. The note was repaid during the year.
- 5.5%, $10.0 million notes and $19.5 million cash from EMS on the sale of the Satellite Products business unit in January 1999. At December 31, 1999, $10.0 million of the notes were outstanding.
- 8.0%, $31.5 million note from MDA on the sale of the Space Robotics business unit in May 1999. The note was outstanding at December 31, 1999.

Income tax expense of $6.8 million increased from fiscal 1999 income tax expense of $1.1 million. The decrease in the effective tax rate occurred as a result of various non-taxable items. It is expected that the Corporation will make full provision for taxes in 2001.

Amortization of goodwill, net of tax of $0.3 million (1999 – $0.4 million), remained constant at $0.8 million for 2000 and 1999.

Gains on divestitures. There was no divestiture activity in 2000. In 1999, gains on divestitures totalled $56.2 million, as a result of the following transactions:

- $49.7 million, net of taxes, on the sale of the net assets of the Space Robotics business unit. Net proceeds of this transaction were $61.7 million and were received in the form of $31.5 million in cash, subsequently reduced for working capital of $1.3 million, and a $31.5 million note due on May 7, 2000.
- $6.5 million, representing a recovery of taxes from a previously divested U.S. operation and adjustments to the transaction costs and expenses pertaining to divestitures.

Loss from discontinued operations was non-existent in 2000, as compared to losses of $3.8 million in 1999.

The 1999 loss from discontinued operations consisted of:

- $2.0 million of net income from the Space Robotics business unit earned to May 7, 1999, the date of disposal.
- $5.8 million of expenses arising from the settlement of divestitures-related lawsuits.

THREE MONTHS ENDED DECEMBER 31, 2000

Revenues for the fourth quarter increased by approximately $3 million due to increased activity in Commercial Aircraft Programs as well as Avionics Upgrade Program (AUP) follow on work.

The fourth quarter was the most profitable quarter in 2000. Contributors to this profitability improvement success were strong performances from Component Maintenance, Repair and Overhaul and from Commercial Aircraft Programs, as well as higher margins from AUP follow on work.

Selling, general and administrative expenses increased by approximately $1 million over previous quarters. The increase was due to the ramp up in marketing activities as the Company continued to restore backlog, as well as an increase in business development expenditures, which was in line with the Company's growth strategy.

LIQUIDITY AND CASH FLOW

The Company ended 2000 with cash and cash equivalents and short-term investments of $50.2 million. This represented an increase of $15.9 million from 1999.

Cash flow from continuing operations of $24 million in 2000 increased by $2 million from $22 million in 1999.

Net change in continuing operations non-cash working capital deteriorated by $4.3 million. Strong revenues in the fourth quarter resulted in a $6.8 million increase in accounts receivable. The near completion of the Department of National Defense (DND) AUP program resulted in a decrease in inventories, accounts payable and customer advances. These changes, combined with the implementation of the restructuring program, netted an unfavourable impact of $1.7 million. In addition, there was an increase in dividends payable of $2.7 million.

Return of capital to shareholders in 2000, net of $0.1 million of costs, totalled $14.8 million. This represented a tax-free return of capital of $1.00 per share to each shareholder of record as at February 16, 2000.

Long-term debt of $2.3 million relating to unsecured, interest-free government loans was repaid in 2000.

Issue of common shares in 2000 consisted of the exercise of 9,600 stock options into 9,600 common shares for proceeds of $0.07 million.

Dividends paid totalled $10.9 million in 2000. Dividends of $0.19 per share were paid in April, July and October 2000, for a total 2000 payout of $0.57 per share.

Proceeds on divestitures took place only in 1999. The $80.3 million consisted of $30.2 million received from MDA on the disposal of the Space Robotics business unit, $30.6 million received from TRW Inc. on the sale of Astro Aerospace Corporation, and $19.5 million received from EMS on the divestiture of the Satellite Products business unit.

Short-term note receivable of $31.5 million received in May 2000 related to proceeds from MDA on the disposal of the Space Robotics business unit.

Repurchase of shares. On December 29, 1999, the Company received regulatory approval from The Toronto Stock Exchange for a normal course issuer bid enabling it to make market purchases of up to 810,000 of its common shares during the period of December 31, 1999 through December 31, 2000.

As at December 31, 2000, 810,000 common shares had been repurchased and cancelled, at a cost of $5.9 million.

On January 2, 2001, the Company received regulatory approval from the Toronto Stock Exchange for a second normal course issuer bid enabling it to make market purchases of up to 752,000 of its common shares during the period January 2, 2001 through December 31, 2001.

As at February 16, 2001, a total of 149,500 common shares had been repurchased and cancelled.

BALANCE SHEET

Accounts receivable increased by $6.8 million to $39.9 million in 2000, from $33.1 million in 1999. The increase was due primarily to increased December revenue activity, as well as attainment of milestones that were billable by December 31, 2000.

Proceeds and notes receivable of $5 million in 2000 were from notes due December 2001, from a 5.5% note from EMS on the divestiture of the Satellite Products business unit. The 1999 balance of $36.5 million was comprised of an 8%, $31.5 million note, due May 2000, owing from MacDonald Dettwiler and Associates on the sale of the Space Robotics business unit, and a 5.5%, $5 million note, due December 2000, owing from EMS on the divestiture of the Satellite Products business unit. The December 2001 note receivable was classified as a non-current asset as at December 31, 1999.

Inventories decreased by $8.5 million to $11.9 million in 2000, from $20.4 million in 1999. The decrease was attributable to inventory balances related to the Aircraft Programs business. Specifically, AUP program-related inventory decreased as a result of nearing program completion.

Capital assets decreased $3.2 million, to $20.2 million in 2000. There were no significant capital expenditures in the year. The decrease was attributable primarily to depreciation on capital assets.

Accounts payable and accrued charges decreased $6.1 million to $35.3 million in 2000, from $41.4 million in 1999. The 1999 balance included the $11.6 million restructuring provision, which was reduced to $5.4 million at December 31, 2000. The drawdown of divestiture-related liabilities also caused the decrease in accounts payable and accrued charges.

Customer advance payments and unearned revenue decreased $3.9 million to $10.4 million in 2000, from $14.3 million in 1999. The reduction related primarily to the reduced milestone payments from the Avionics Upgrade Program.

Accrued benefit liability of $17.6 million at December 31, 2000 consisted of $18.6 million pertaining to other post employment benefit plans and of a $1.0 million surplus to pension plans. (See also note 8 to financial statements.)

In 1999, the new accounting recommendations for Employee Future Benefits were applied on a retroactive basis without restatement of prior periods. Post employment benefit plans earned by employees, such as health and dental care, and pension plans were recognized in the period in which the employee rendered the services. The accrued benefit liability of $18.4 million at December 31, 1999 consisted of $17.9 million pertaining to other post-employment benefit plans and $0.5 million to pension plans.

Long-term debt of $1.2 million (including current portion of $1.0 million) consisted of unsecured, interest-free government loans repayable — $1.0 million in 2001, and $0.2 million in 2002.

FINANCING

The Company normally finances fixed asset and working capital investments out of operating cash flow. The nature of the Company's contracting for its large cost reimbursable and fixed price programs is such that programs are typically financed by customer progress payments based on costs incurred or milestones achieved. These factors allow the Company in certain portions of its business to operate on lower working capital levels relative to the volume of revenue.

The Company has a one-year credit facility, including borrowings up to $5 million and Letters of Credit up to $15 million. At December 31, 2000, draws on the facility amounted to $9.8 million for Letters of Credit.

The Company expects to pursue additional acquisitions. Such investments will be financed primarily through a combination of existing cash balances, future operating cash flows, and debt, as appropriate.

Recent Accounting Pronouncements

The Canadian Institute of Chartered Accountants recently issued a new recommendation on earnings per share. This new standard is effective for fiscal years commencing on or after January 1, 2001. The new recommendation brings Canadian requirements substantially in line with U.S. and international standards. Under the new standard, the treasury stock method will be used instead of the current imputed earnings approach for determining the dilutive effect of warrants and options, including employee stock options with fixed or determinable terms. It is not expected that the adoption of this standard will have a material impact on the earnings per share calculation in 2001.

Outlook

The 2001 outlook for Spar is positive, as the business is showing strength and momentum. The Company will continue to pursue growth both in its existing base business and through acquisitions, when appropriate opportunities arise. For 2001, revenue growth is expected to be restored, EBITDA is anticipated to grow between 7% to 10% versus 2000, and EPS is projected to be in the range of $1.04 to $1.08, on a fully diluted basis.

We are expecting 2001 capital expenditures to increase substantially over 2000 due to growth in Commercial Aircraft Programs and the modernization of the Company's IT infrastructure. The expenditures will be financed through working capital from operations.

GENERAL RISKS AND UNCERTAINTIES

In the normal course of business, the Company operates in an environment that includes certain risks and uncertainties. Risks and uncertainties applicable to the Company's business as a whole include the following:

Fluctuations in Operating Results

The Company's revenues and earnings fluctuate from quarter to quarter, or year to year, based on customer requirements and timing of orders. The Company's operating results may fluctuate as a result of many factors, including increased competition, the size and timing of significant customer orders, changes in estimated costs at completion of long term fixed-price contracts, cancellations of significant projects by customers, changes in operating expenses, personnel changes, foreign currency exchange rates and general economic factors.

The Company's operating expense levels are based in significant part on its expectations regarding future revenues. Accordingly, the Company may be unable to adjust spending in a timely manner to compensate for any unexpected revenue shortfall. Any significant revenue shortfall could therefore have a material adverse effect on the Company's results of operations.

Dependence on Key Personnel

The Company is highly dependent on the continued service of, and its ability to attract and retain, qualified technical and engineering personnel. The competition for such personnel is intense and the loss of particular persons, as well as the failure to recruit additional key technical personnel in a timely manner, could have a material adverse effect on the Company's business.

Exchange Rate

Normally, revenues are contracted in Canadian or U.S. dollars and the majority of costs are in the same currencies. The Company follows a policy of not speculating on exchange rates. It endeavours to minimize net foreign currency exposure in contracts by negotiating clauses that provide for price adjustment resulting from significant exchange rate changes, and/or enters into exchange futures contracts designed to protect margins anticipated at the time of contract award. The potential for significant losses or gains due to exchange rate variations is reduced by these methods. There was minimal exposure at year end, as foreign exchange exposure was mitigated by natural hedges.

Management's Responsibility for Financial Reporting

The accompanying consolidated financial statements of Spar Aerospace Limited and all the information in this annual report are the responsibility of management and have been approved by the Board of Directors.

The consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles. When alternative accounting methods exist, management has chosen those it deems most appropriate in the circumstances. Financial statements are not precise since they include certain amounts based on estimates and judgments. Management has determined such amounts on a reasonable basis in order to ensure that the consolidated financial statements are presented fairly, in all material respects. Management has prepared the financial information presented elsewhere in the annual report and has ensured that it is consistent with that in the financial statements.

The Company maintains systems of internal accounting and administrative controls of high quality consistent with reasonable cost. Such systems are designed to provide reasonable assurance that the financial information is relevant, reliable and accurate and that the Company's assets are appropriately accounted for and adequately safeguarded. The Company has also established an appropriate code of business conduct policy, which addresses relationships with customers, suppliers and competitors; potential conflicts of interest; compliance with the law and confidentiality of Company information. Management annually reviews this policy with employees and has procedures in place to assess compliance.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and is ultimately responsible for reviewing and approving the consolidated financial statements. The Board carries out this responsibility principally through its Audit Committee.

The Audit Committee is appointed by the Board, and all of its members are outside directors. The Committee meets periodically with management, as well as with the external auditors, to discuss internal controls over the financial reporting process, auditing matters and financial reporting issues; to satisfy itself that each party is properly discharging its responsibilities; and to review the annual report, the consolidated financial statements and the external auditors' report. The Committee reports its findings to the Board for consideration when approving the consolidated financial statements for issuance to the shareholders. The Committee also considers, for review by the Board and approval by the shareholders, the engagement or reappointment of the external auditors.

The consolidated financial statements have been audited by Ernst & Young LLP, the external auditors, in accordance with Canadian generally accepted auditing standards on behalf of the shareholders. Ernst & Young LLP have full and free access to the Audit Committee.

Signed

Anthony Caputo
President and
Chief Executive Officer

Signed

Antonio Fernandez-Stoll
Senior Vice President and
Chief Financial Officer

Auditors' Report

TO THE SHAREHOLDERS OF SPAR AEROSPACE LIMITED:

We have audited the consolidated balance sheets of Spar Aerospace Limited as at December 31, 2000 and 1999 and the consolidated statements of operations, retained earnings and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance that the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2000 and 1999 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Ernst & Young LLP

Chartered Accountants
Toronto, Canada
February 16, 2001

Consolidated Statements of Operations

For the years ended December 31, 2000 and 1999

($ thousands)	2000	1999
Revenues	$ 134,417	$ 136,625
Cost of revenues including all expenses except items shown below	96,531	103,274
Gross margin	37,886	33,351
Administrative and selling expenses	15,790	18,334
Depreciation and amortization	3,777	4,753
Restructuring costs (note 11)	–	11,600
Total operating expenses	19,567	34,687
Operating income (loss)	18,319	(1,336)
Interest income	4,088	5,023
Other income (expenses)	920	(650)
Income from continuing operations before income taxes	23,327	3,037
Income tax expense (note 5)	(6,765)	(1,097)
Income from continuing operations before amortization of goodwill	16,562	1,940
Amortization of goodwill, net of tax of $310 (1999 – $387)	(759)	(751)
Income from continuing operations	$ 15,803	$ 1,189
Gain on divestiture or discontinuance of operations (note 12)	–	56,226
Loss from discontinued operations (note 12)	–	(3,781)
Net Income	**$ 15,803**	**$ 53,634**
Basic income per common share (in dollars) (note 6)		
Income from continuing operations before amortization of goodwill	$ 1.15	$ 0.13
Income from continuing operations	$ 1.09	$ 0.08
Net income	$ 1.09	$ 3.57
Fully diluted income per common share (in dollars) (note 6)		
Income from continuing operations before amortization of goodwill	$ 1.06	$ 0.13
Income from continuing operations	$ 1.02	$ 0.08
Net income	$ 1.02	$ 3.27

Consolidated Statements of Retained Earnings

For the years ended December 31, 2000 and 1999

($ thousands)		2000		1999
Retained earnings (deficit), beginning of year, previously reported	$	20,854	$	(18,907)
Adjustment due to change in method of accounting for employee future benefits (note 8)		–		(13,873)
Deficit, beginning of year, restated		–		(32,780)
Net income		15,803		53,634
Dividends declared		(10,944)		–
Premium paid on repurchase of shares (note 6)		(2,009)		–
Retained earnings, end of year	**$**	**23,704**	**$**	**20,854**

(See accompanying notes to consolidated financial statements.)

Consolidated Balance Sheets

December 31, 2000 and 1999

($ thousands)		2000		1999
Assets				
Current assets				
Cash and cash equivalents	$	40,494	$	34,395
Short-term investments		9,755		–
Accounts receivable (note 2)		39,923		33,089
Inventories (note 2)		11,895		20,423
Prepaid expenses and other		826		723
Notes receivable (note 12)		5,000		36,482
Total current assets		107,893		125,112
Capital assets (note 3)		20,173		23,364
Goodwill		17,407		18,476
Intellectual property		3,329		3,799
Note receivable (note 12)		–		5,000
Other long-term assets		3,002		2,389
Total Assets	$	151,804	$	178,140
Liabilities and Shareholders' Equity				
Current liabilities				
Accounts payable and accrued charges (note 11)	$	35,297	$	41,419
Dividends payable		2,723		–
Customer advance payments and unearned revenue (note 2)		10,400		14,335
Current portion of long-term debt (note 4)		1,020		2,282
Total current liabilities		49,440		58,036
Long-term debt (note 4)		160		1,180
Accrued benefit liability (note 8)		17,572		18,351
Total liabilities		67,172		77,567
Commitments and contingencies (note 7)				
Shareholders' equity				
Share capital (note 6)		60,928		79,719
Retained earnings		23,704		20,854
Total shareholders' equity		84,632		100,573
Total liabilities and shareholders' equity	$	151,804	$	178,140

(See accompanying notes to consolidated financial statements.)

On behalf of the Board:

Director, Spar Aerospace Limited

Director, Spar Aerospace Limited

Consolidated Statements of Cash Flows

For the years ended December 31, 2000 and 1999

($ thousands)	2000	1999
Operating activities		
Cash flow from continuing operations (note 9)	$ 24,192	$ 22,049
Net change in continuing operations non-cash working capital	(11,723)	(7,396)
Cash flow from discontinued operations (note 9)		(8,992)
Net change in discontinued operations non-cash working capital		(7,619)
Cash provided by (used in) operating activities	12,469	(1,958)
Financing activities		
Return of capital to shareholders (note 6)	(14,931)	(50,992)
Long-term debt repaid	(2,282)	
Issue of common shares	70	1,946
Repurchase of shares (note 6)	(5,939)	–
Dividends paid	(8,221)	–
Cash used in financing activities	(31,303)	(49,046)
Investing activities		
Short-term investments	(9,755)	–
Proceeds from repayment of notes receivable	36,482	(5,000)
Proceeds on divestitures (note 12)	–	80,348
Additions to capital assets, continuing operations	(1,181)	(1,443)
Other long-term assets	(613)	(637)
Additions to capital assets, discontinued operations (note 12)	–	(1,270)
Cash provided by investing activities	24,933	71,998
Increase in cash and cash equivalents	6,099	20,994
Cash and cash equivalents, beginning of year	34,395	13,401
Cash and cash equivalents, end of year	**$ 40,494**	**$ 34,395**
Cash and cash equivalents consist of:		
Cash (overdraft)	(972)	4,017
Cash equivalents	41,466	30,378
	$ 40,494	$ 34,395

(See accompanying notes to consolidated financial statements.)

Notes to Consolidated Financial Statements

December 31, 2000 and 1999

1. Summary of significant accounting policies

The accompanying consolidated financial statements include the accounts of Spar Aerospace Limited (the "Company") and its subsidiaries. During 1999, the Company divested the Space Robotics business unit and completed the sale of the Satellite Products business unit. The business unit's accounts, which have been discontinued, have been classified as discontinued operations (see note 12). The consolidated statements of operations for the year ended 1999 has been reclassified to reflect the discontinued operations.

These consolidated financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles consistently applied within the framework of the accounting policies summarized below. Because a precise determination of many assets and liabilities depends on future events, the preparation of financial statements necessarily involves the use of management's best estimates and approximations.

(a) Measurement uncertainty

The preparation of these consolidated financial statements requires management's best estimate related to events whose outcomes will not be fully resolved until future periods. The preparation of these consolidated financial statements is based on management's estimates of revenues and the costs required to complete the projects. Costs may include performance-related penalties. The amounts recorded for facility restructuring and provisions for costs related to business discontinuance and divestiture by their nature are subject to measurement uncertainty. Revisions to the estimates used in the preparation of these consolidated financial statements could have a material impact on financial results of future periods.

(b) Revenue recognition

On long-term contracts, revenue is accrued using the percentage of completion method relative to total costs or labour hours incurred as the work is performed. A provision is made for the total anticipated loss when the estimate of total costs on a contract indicates a loss. Revisions in cost and profit estimates during the course of the work are reflected in the period in which the need for the revision becomes known. Some contracts contain incentive and/or penalty provisions based on performance relative to established targets. Such awards or penalties are included in revenue or cost estimates when amounts can be reasonably determined. Contract costs and related profit margins in excess of amounts billed are included in accounts receivable. Amounts billed in excess of contract costs and related profit margins are included in customer advance payments and unearned revenue.

All other revenue is recognized at the time products are shipped or services are rendered to the customer.

A provision for potential warranty claims is provided for at the time revenue is recognized, based on warranty terms and claims experience.

(c) Employee benefit plans

Effective January 1, 1999, the Company adopted the new recommendations of The Canadian Institute of Chartered Accountants (CICA) with respect to accounting for Employee Future Benefits on a retroactive basis without restatement of individual prior periods. The cost of pensions and other retirement benefits earned by employees is determined using the projected benefit method pro-rated on service and management's best estimate of expected plan investment performance, salary escalation and retirement age of employees. The discount rate used to determine the accrued benefit obligation is determined by reference to market interest rates, at the measurement date, on high quality debt instruments with cash flows that match the timing and amount of expected benefit payments. For purposes of calculating the expected return on plan assets, those assets are valued at fair value. The excess of the net actuarial gain (loss) over 10% of the greater of the benefit obligation and the fair value of plan assets is amortized over the average remaining service life of active employees. When the restructuring of a benefit plan gives rise to both a curtailment and settlement of obligations, the curtailment is accounted for prior to the settlement.

(d) Income taxes

The liability method of tax allocation is used in accounting for income taxes. Under this method, future tax assets and liabilities are determined based on differences between the financial reporting and tax bases of assets and liabilities, and measured using the substantially enacted tax rates and laws that will be in effect when the differences are expected to reverse.

(e) Earnings per share

Earnings per share have been calculated on the basis of income for the period divided by the weighted average number of common shares outstanding during the fiscal year. The calculation of fully diluted earnings per share assumes that, if a dilutive effect is produced, all outstanding options had been exercised at the later of the beginning of the fiscal period and the option issue date, and includes an allowance for imputed earnings derived from the investment of funds that would have been received.

(f) Inventories

Inventories of components and purchased parts and work in progress are valued at the lower of cost (on a weighted average cost basis), and market value, being replacement cost.

(g) Capital assets

Additions to capital assets are recorded at cost. Depreciation and amortization are provided using the straight-line method to amortize the cost of the assets over their useful lives as follows:

Buildings	20 years
Leasehold improvements	Term of the lease plus renewal option, if applicable
Machinery and equipment	3–10 years

(h) Goodwill

The excess purchase price paid on the acquisition of businesses over the fair market value assigned to identifiable net assets acquired is allocated to goodwill. Goodwill is stated on the basis of cost less accumulated amortization and is being amortized on a straight-line basis over 20 years. As at December 31, 2000, accumulated amortization totalled $3,164,000 (1999 — $2,392,000). On an ongoing basis, management reviews the valuation and amortization of goodwill, taking into consideration any events, circumstances or trends that might have impaired its value. The amount of goodwill impairment, if any, is based on projected future results. The Company believes no impairment exists at December 31, 2000.

(i) Intellectual property

Intellectual property is stated on the basis of cost less accumulated amortization and is being amortized on a straight-line basis over 10 years. As at December 31, 2000, accumulated amortization totalled $1,371,000 (1999 — $901,000). On an ongoing basis, management reviews the valuation and amortization of intellectual property, taking into consideration any events, circumstances or trends that might have impaired its value. The amount of impairment, if any, is based on projected future results. The Company believes no impairment exists at December 31, 2000.

(j) Foreign exchange

Transactions denominated in foreign currencies are translated into Canadian dollars at the rate prevailing at the time of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at rates prevailing at the financial statement reporting date. Non monetary assets and liabilities and related charges to the consolidated statements of operations are translated at historical rates. Foreign exchange gains and losses are included in net income in the year incurred.

(k) Stock-based compensation plan

The Company has one stock-based compensation plan, which is described in note 6. No compensation expense is recognized for this plan when stock or stock options are issued to employees. Any consideration paid by employees on exercise of stock options or purchase of stock is credited to share capital. If stock or stock options are repurchased from employees, the excess of the consideration paid over the carrying amount of the stock or stock option cancelled is charged to retained earnings.

(l) Cash equivalents

Cash equivalents comprise only highly liquid investments that are readily convertible to cash with maturities of less than 90 days when purchased. Cash equivalents consist of term deposits and bankers' acceptances with interest rates ranging from 4.75% to 6.64% and mature within 90 days.

(m) Investments

Short-term investments are carried at the lower of cost or market. Short-term investments comprise bankers' acceptances with an interest rate of 5.9%.

Long term investments are carried at cost, unless in the Company's view it has suffered a loss in value of the investments that is other than temporary.

2. Inventories

Inventories consist of the following:

($ thousands)		2000		1999
Components and purchased parts	$	7,845	$	15,698
Work in progress		4,050		4,725
	$	11,895	$	20,423

Amounts billed in excess of contract costs and related profit margins of $10,400,000 (1999 – $14,335,000) are included in customer advance payments and unearned revenue.

Contract costs and related profit margins in excess of amounts billed of $3,571,624 (1999 – $2,265,000) are included in accounts receivable.

3. Capital assets

Capital assets consist of the following:

				2000		
($ thousands)		Cost		Accumulated Depreciation and Amortization		Net Book Value
Buildings and leasehold improvements	$	15,880	$	3,579	$	12,301
Machinery and equipment		21,191		13,319		7,872
	$	37,071	$	16,898	$	20,173

				1999		
($ thousands)		Cost		Accumulated Depreciation and Amortization		Net Book Value
Buildings and leasehold improvements	$	15,911	$	2,845	$	13,066
Machinery and equipment		22,007		11,709		10,298
	$	37,918	$	14,554	$	23,364

4. Long-term debt

The Company's long-term debt consists of the following:

($ thousands)		2000		1999
Unsecured interest-free government loans with annual principal repayments not exceeding $1,020 maturing in 2002	$	1,180	$	3,462
Less: current portion		1,020		2,282
	$	160	$	1,180

The estimated fair value of the government loans is approximately $1,100,000 at December 31, 2000 (1999 — $2,400,000).

Bank Debt

The Company has a one-year credit facility including borrowings up to $5 million and Letters of Credit up to $15 million. Under certain conditions, the Company can transfer availability between the letter of credit facility and the borrowing facility. Borrowings under this facility are available at prime, U.S. base rate, Canadian bankers' acceptance rates and U.S. LIBOR rates plus a fixed percentage. The credit facilities are collateralized by a first ranking charge over and security interest in substantially all of the assets and undertakings of the Company.

As at December 31, 2000 and 1999, no borrowings have been drawn on this credit term facility (see also note 7(b)).

5. Income taxes

Significant components of the Company's future tax assets and liabilities, which are recorded in accounts payable and accrued charges, are as follows:

($ thousands)		2000		1999
Future tax assets:				
Deferred revenue on long-term contracts	$	904	$	3,123
Non-deductible provisions		5,678		7,169
Capital assets		1,213		909
Other		–		782
Total future tax assets		7,795		11,983
Future tax liabilities:				
Deductible goodwill		(4,235)		(4,871)
Investment tax credits recognized for book purposes		(576)		(929)
Other		(59)		–
Total future tax liabilities		(4,870)		(5,800)
Net future tax assets	$	2,925	$	6,183

Significant components of the provision for income taxes attributable to continuing operations are as follows:

($ thousands)		2000		1999
Current income tax expense (recovery)	$	3,198	$	(3,079)
Future income tax expense relating to origination and reversal of temporary differences		3,567		4,176
Income tax expense from continuing operations before amortization of goodwill		6,765		1,097
Tax benefit of deductible goodwill included in goodwill charges		(310)		(387)
Income tax expense from continuing operations	$	6,455	$	710

The reconciliation of income tax attributable to continuing operations computed at the statutory tax rates to income tax expense is as follows:

($ thousands)		2000		1999
Canadian statutory income tax rate		44.4%		45.0%
Income tax expense prior to the following:	$	10,264	$	1,367
Net non-taxable items		(2,258)		(2,512)
Change in tax rate		(396)		(49)
Manufacturing and processing deduction		–		(33)
Large corporations tax		200		564
Other		(1,045)		1,760
Income tax expense from continuing operations before amortization of goodwill		6,765		1,097
Tax benefit of deductible goodwill included in goodwill charges		(310)		(387)
	$	6,455	$	710

In addition in 1999, the Company recorded tax expense related to divestitures and discontinued operations of $8,995,000.

The Company recognizes as future tax assets the benefit of investment tax credits and capital loss carryforwards to the extent it is more likely than not that the benefit will be realized. At December 31, 2000, the Company has available Canadian investment tax credits of approximately $64,000,000 which expire between 2001 and 2008, and capital losses of $105,000,000, which can be carried forward indefinitely, for which no future tax asset has been recognized.

Investment tax credits of $2,050,000 (1999 – $1,750,000) have been included in the determination of operating expenses. In addition, in 1999, $1,750,000 had been included in discontinued operations.

6. Share capital

Common Shares

Authorized - unlimited	Number of Shares	$	thousands
Issued and outstanding December 31, 1998	14,923,376	$	128,765
Issued for cash on exercise of options	205,820		1,946
Return of capital to shareholders (including costs of $550)	–		(50,992)
Issued and outstanding December 31, 1999	15,129,196		79,719
Issued for cash on exercise of options	9,600		70
Purchased and cancelled	(810,000)		(3,930)
Return of capital to shareholders (including costs of $119)	–		(14,931)
Issued and outstanding December 31, 2000	14,328,796	$	60,928

The weighted average number of common shares outstanding during the year is as follows:

Number of Shares	2000	1999
Basic	14,452,105	15,027,327
Fully diluted	15,944,242	16,539,047

Repurchase of Common Shares

On January 2, 2001, the Company received regulatory approval from The Toronto Stock Exchange to purchase up to 752,000 of its common shares by way of a normal course issuer bid. The issuer bid commenced on January 2, 2001 and will terminate on December 31, 2001.

As at February 16, 2001, a total of 149,500 common shares had been repurchased and cancelled.

On December 29, 1999, the Company received regulatory approval from The Toronto Stock Exchange to purchase 810,000 of its common shares by way of a normal course issuer bid. At December 31, 2000, a total of 810,000 common shares, including those committed to repurchase as of December 29, 1999, had been repurchased and cancelled, for a total cost of $5.9 million (including $2.0 million charged to retained earnings).

Return of Capital to Shareholders

On January 28, 2000, the shareholders approved a reduction and return of capital of $1.00 per share (approximately $14,812,000 aggregate together with related costs of $118,700) at a special meeting of the shareholders. The return of capital was made to shareholders of record as of February 16, 2000. The payment was made on February 21, 2000.

On May 13, 1999, the shareholders approved a reduction and return of capital of $3.35 per share (approximately $50,442,000 in aggregate together with related costs of $550,000) at a special meeting of the shareholders. The return of capital was made to shareholders of record as of June 1, 1999. The payment was made on June 9, 1999.

Share Purchase Loan

During 2000, officers and employees were indebted to the Company in the amount of $1,446,940 (1999 — $650,650) under the employee share purchase loan program, which is recorded in other long-term assets. These loans are non-interest bearing, and have a five-year term. Company shares that are purchased from the loan proceeds are provided as collateral for the loans.

Preferred Shares and Junior Preferred Shares

Such classes of shares may be issued in one or more series with such designations, preferences, rights, privileges, restrictions and conditions attached as may be determined by the directors.

Authorized — 10,000,000 preferred shares and 20,000,000 junior preferred shares;

Issued and outstanding — nil

Stock Option Plan

At December 31, 2000, 1,492,137 (1999 — 1,511,720) common shares were reserved for issuance related to stock options issued to certain employees, current and former officers and directors.

A summary of the Company's stock option plan as at December 31, 2000 and changes during the year is presented below:

	2000 Shares	Weighted Average Exercise Price	1999 Shares	Weighted Average Exercise Price
Outstanding, beginning of year	1,511,720	*$ 7.54	1,261,705	$ 8.78
Granted	250,000	9.76	532,675	7.71
Exercised	(9,600)	6.55	(205,820)	9.46
Cancelled	(52,183)	6.50	(72,760)	12.80
Expired	(207,800)	9.43	(4,080)	12.28
Outstanding, end of year	**1,492,137**	**$ 7.80**	**1,511,720**	***$ 8.58**
Options exercisable at year end	**877,344**		**808,425**	

* The weighted average exercise price is presented after giving effect to the repricing of options since the beginning of the year as a result of a return of capital to shareholders in 2000 and 1999.

The Board of Directors may authorize up to a maximum of 1,502,120 options to purchase common shares under the Stock Option Plan.

These options expire over a period of 10 years and, for the most part, vest over a period of 5 years.

The following table summarizes information about the stock options outstanding at December 31, 2000 and 1999:

2000								
Exercise Prices	Number Outstanding	Weighted Average Remaining Contractual Life		Weighted Average Exercise Price	Number Exercisable		Weighted Average Exercise Price
$5.76—$6.55	538,087	5.6	$	6.30	261,326	$	6.28
$7.37—$9.37	828,950	4.7	$	8.16	593,258	$	8.21
$10.00—$14.00	125,100	8.4	$	11.93	22,760	$	11.65
	1,492,137				877,344		

1999							
Exercise Prices	Number Outstanding	Weighted Average Remaining Contractual Life		Weighted Average Exercise Price	Number Exercisable		Weighted Average Exercise Price
$6.56—$7.40	592,370	6.6	$	7.18	180,187	$	7.13
$7.46—$9.37	708,410	4.3	$	8.96	430,878	$	[illegible]
$10.41—$13.27	210,840	1.7	$	11.26	197,360	$	[illegible]
	1,511,720				808,425		

Shareholder Rights Plan

The Company has in place a Shareholder Rights Plan (the "Rights Plan") to ensure that any takeover bid made for the shares of the Company shall be made to all shareholders, shall treat all shareholders fairly and equally and shall provide the Board of Directors with sufficient time to consider any such offer. At the 2000 Annual and Special Shareholders' Meeting, the shareholders approved amendments to the Rights Plan to provide among other things that the Rights Plan will expire at the 2001 Annual Shareholders' Meeting unless renewed at that meeting.

The Rights Plan grants to shareholders the right to acquire, under certain circumstances, additional common shares [illegible] at a 50% discount from its then current market price. The Company, at its option, may redeem each right at a nominal price or waive application of the Rights Plan. In addition, in certain circumstances, any person who acquires more than 50% of the Company's common shares pursuant to a takeover bid for all of the outstanding common shares of the Company and any shareholder or shareholders who hold more than 50% of the outstanding common shares of the Company may require the Company to redeem all rights for a nominal amount.

7. Commitments and contingencies

(a) Lease commitments

The future minimum payments under facilities operating leases aggregate $12,380,000 with payments for the next five years as follows:

($ thousands)		Annual Rental
2001	$	1,548
2002		1,529
2003		1,490
2004		1,416
2005		1,225

(b) Letters of credit and guarantee

The Company is contingently liable under letters of credit in the amount of $9,776,138 related primarily to guarantees of supplemental executive retirement plan benefits.

(c) AMSC lawsuit

On July 6, 1999, the Company reached an agreement to settle all outstanding litigation in the case of AGF Reassurances et al. versus Spar Aerospace Limited for US$15.0 million. The loss from discontinued operations during 1999 included a CDN$5.2 million charge associated with this settlement. The CDN$5.2 million charge consisted of the US$15.0 million settlement paid in 1999 offset by a provision release of CDN$14.0 million and an income tax recovery of CDN$3.0 million.

(d) Other legal matters

The Company is involved in various lawsuits and other contingencies arising in the normal course of business and from discontinued and divested businesses. In the opinion of management, the ultimate resolution of these claims and lawsuits will not have a material adverse effect upon the financial position of the Company.

8. Pension and retirement plans

The cumulative effect of adopting the new recommendations of the CICA as of January 1, 1999, with respect to accounting for Employee Future Benefits, decreased 1999 opening retained earnings by $13,873,000.

The Company has sponsored several defined benefit (contributory and non-contributory) pension arrangements providing pension, other retirement and post employment benefits to most of its employees. The Company uses actuarial reports prepared by independent actuaries for funding and accounting purposes.

	Pension Benefit Plans January 1/00	Pension Benefit Plans December 31/00	Other Benefit Plans January 1/00	Other Benefit Plans December 31/00
Discount rate	7.0%	6.5%	7.0%	7.0%
Expected long-term rate of return on plan assets	7.5%	7.0%	n/a	n/a
Rate of compensation increase	4.0%	4.0%	4.0%	4.0%

Other Benefit Plans

Health and dental care costs are assumed to increase to 7.1% and 4.5%, respectively, for 2001. The rate of increase of health care costs is assumed to decrease to 4.5% after three years. The rate of increase of dental care costs is assumed to be 4.5% per annum.

Information about the Company's defined benefit plans is as follows:

Accrued Benefit Obligation

2000

($ thousands)	Pension Benefit Plans	Other Benefit Plans	Total
Balance, beginning of year	$ 61,465	$ 17,606	$ 79,071
Current service cost	936	445	1,381
Interest cost	4,012	1,129	5,141
Contributions	249	–	249
Actuarial (gains)/losses	2,219	(173)	2,046
Benefits paid	(4,947)	(850)	(5,797)
Divestitures	–	–	–
Balance, end of year	**$ 63,934**	**$ 18,157**	**$ 82,091**

1999

($ thousands)	Pension Benefit Plans	Other Benefit Plans	Total
Balance, beginning of year	$ 72,785	$ 17,615	$ 90,400
Current service cost	1,824	213	2,037
Interest cost	4,071	1,047	5,118
Contributions	458	–	458
Actuarial (gains)/losses	(1,408)	(290)	(1,698)
Benefits paid	(5,021)	(979)	(6,000)
Divestitures	(11,244)	–	(11,244)
Balance, end of year	**$ 61,465**	**$ 17,606**	**$ 79,071**

Plan Assets

2000

($ thousands)	Pension Benefit Plans	Other Benefit Plans	Total
Fair value, beginning of year	$ 63,789	$ –	$ 63,789
Actual return on plan assets	9,021	–	9,021
Employer contributions	2,073	–	2,073
Employee contributions	249	–	249
Benefits paid	(4,947)	–	(4,947)
Divestitures	–	–	–
Fair value, end of year	**$ 70,185**	**$ –**	**$ 70,185**

1999			
($ thousands)	Pension Benefit Plans	Other Benefit Plans	Total
Fair value, beginning of year	$ 77,823	$ –	$ 77,823
Actual return on plan assets	2,756	–	2,756
Employer contributions	3,999	–	3,999
Employee contributions	458	–	458
Benefits paid	(5,021)	–	(5,021)
Divestitures	(16,226)	–	(16,226)
Fair value, end of year	$ 63,789	$ –	$ 63,789

Funded Status-Plan Surplus (Deficit)

2000			
($ thousands)	Pension Benefit Plans	Other Benefit Plans	Total
Funded status-plan surplus (deficit)	$ 6,251	$ (18,157)	$ (11,906)
Unamortized net actuarial gains	(2,944)	(463)	(3,407)
Accrued benefit asset (liability)	3,307	(18,620)	(15,313)
Valuation allowance	(2,259)	–	(2,259)
Accrued benefit liability, net of valuation allowance	$ 1,048	$ (18,620)	$ (17,572)

1999			
($ thousands)	Pension Benefit Plans	Other Benefit Plans	Total
Funded status-plan surplus (deficit)	$ 2,324	$ (17,606)	$ (15,282)
Unamortized net actuarial gain	(549)	(290)	(839)
Accrued benefit asset (liability)	1,775	(17,896)	(16,121)
Valuation allowance	(2,230)	–	(2,230)
Accrued benefit liability, net of valuation allowance	$ (455)	$ (17,896)	$ (18,351)

Included in the above accrued benefit obligation and fair value of plan assets are the following amounts in respect of plans that are not fully funded:

($ thousands)	2000 Pension Benefit Plans	1999 Pension Benefit Plans
Accrued benefit obligation	$ 39,928	$ 15,924
Fair value of plan assets	31,929	8,266
Funded status-plan deficit	$ 7,999	$ 7,658

Net Benefit Plan Expense

The Company's net benefit plan expense is as follows:

($ thousands)	2000 Pension Benefit Plans	2000 Other Benefit Plans	2000 Total	1999 Total
Current service costs	$ 936	$ 445	$ 1,381	$ 2,037
Interest cost	4,012	1,129	5,141	5,118
Expected return on plan assets	(4,414)	–	(4,414)	(4,481)
Net benefit plan expense	$ 534	$ 1,574	$ 2,108	$ 2,674

As a result of the divestiture of the Space Robotics business unit, the former active members no longer earn further benefit entitlements from the Company's existing pension and other benefit plans. The plan assets and accrued benefit obligations pertaining to the former active members have been assumed by the purchaser. The Company has retained pension and other benefit obligations related to retirees of the Space Robotics business unit.

9. Consolidated statements of cash flows

Cash flow from continuing operations consists of:

($ thousands)	2000	1999
Income from continuing operations	$ 15,803	$ 1,189
Add (deduct) items not involving cash		
Restructuring costs	–	11,600
Depreciation	3,307	3,708
Amortization of intellectual property	470	1,045
Amortization of goodwill	1,069	1,138
Future income tax expense (note 5)	3,257	3,789
Accrued benefit liability	(779)	(420)
Loss on disposal of capital assets	1,065	–
	$ 24,192	$ 22,049

Cash flow used in discontinued operations consists of:

($ thousands)	2000	1999
Income (loss) from discontinued operations	$ –	$ 52,445
Add (deduct) items not involving cash		
Non-cash portion of gains on sale of discontinued operations	–	(62,249)
Depreciation	–	1,054
Amortization of goodwill	–	183
Pension contributions	–	(1,020)
Future income taxes	–	595
Loss on disposal of capital assets	–	–
	$ –	$ (8,992)

Supplementary cash flow information ($ thousands)		2000		1999
Income taxes paid	$	709	$	879
Interest paid	$	110	$	124

10. Other supplementary financial information

($ thousands)		2000		1999
Operating income (loss)	$	18,319	$	(1,336)
Depreciation and amortization		3,777		4,753
Other (expenses) income		920		(650)
Earnings before interest, taxes, depreciation and amortization (EBITDA)		23,016		2,767
Investment Tax Credits (ITCs)		(2,050)		(1,750)
Restructuring costs		–		11,600
EBITDA before ITCs and restructuring costs	$	20,966	$	12,617

11. Restructuring costs

In 1999, the Company recorded an $11.6 million restructuring charge to shut down the Aviation Services facilities located in Pointe Claire, Quebec, and Piqua, Ohio, in an effort to consolidate product lines at the Mississauga, Ontario, facility and streamline fixed overhead costs. In addition, the Company's corporate infrastructure was reduced and incorporated with Aviation Services in Mississauga, Ontario. These activities were completed by December 31, 2000. As at December 31, 2000, current liabilities related to the above items that provide for salary and lease continuance payments included in accounts payable and accrued charges were $5.4 million (1999 — $11.6 million).

12. Discontinued operations

1999

(i) Space Robotics division and Spar Operations & Engineering Corporation ("Space Robotics business")

On May 7, 1999, the Company sold the Space Robotics business for cash proceeds of $63.0 million. Proceeds were received in the form of $31.5 million cash and a $31.5 million promissory note, which was due and paid on May 7, 2000. The note bore interest at 8% per annum.

The 1999 results associated with discontinuance of the Space Robotics business are summarized as follows:

($ thousands)		1999
Revenues	$	40,381
Gain on divestitures and discontinuance of operations, net of tax expense of ($11,095)		56,226
Loss from discontinued operations, net of tax recovery of $2,100	$	(3,781)

(ii) On January 29, 1999, the Company completed the sale of the Satellite Products business unit for total proceeds of approximately $29.5 million subject to post closing adjustments based on working capital balances at the Satellite Products business unit. The proceeds consisted of:

$19.5 million cash received during 1999

$5.0 million convertible promissory note received on December 31, 2000

$5.0 million convertible promissory note due on December 31, 2001

The outstanding convertible promissory note bears interest at 5.5% per annum and is convertible, any time, at the Company's option, into common shares of the purchaser at US$24 per share. The note contains certain provisions that allow the purchaser to retract the note upon notice of conversion subject to the payment of a premium equal to 50% of the difference between the market price of the common shares if above US$25, and US$25 per share to a maximum premium of 50% of the face value of the note.

13. Financial instruments

The carrying amounts of cash and cash equivalents, short-term investments, accounts receivable, notes receivable, long-term investments, accounts payable and accrued charges, dividends payable, customer advance payments and unearned revenue are considered to approximate their respective fair value.

14. Segmented information

The Company's primary focus is to provide aviation services. As a result, the Company has one reportable segment.

($ thousands)	2000		1999	
Geographic information:	Revenues	Capital Assets and Goodwill	Revenues	Capital Assets and Goodwill
Canada	$ 82,486	$ 37,580	$ 84,662	$ 41,840
United States	39,620	–	41,495	–
Other foreign countries	12,311	–	10,468	–
Total	$ 134,417	$ 37,580	$ 136,625	$ 41,840

Revenues are attributed to countries based on location of customer.

15. Comparative consolidated financial statements

The comparative consolidated financial statements have been reclassified from statements previously presented in order to conform to the presentation of the 2000 consolidated financial statements.

16. Subsequent event

Sale of Vistar Telecommunications Inc.

On January 22, 2001, the Company sold its shares of Vistar Telecommunications Inc. for cash proceeds of $3,183,000, and 767,164 common shares of NSI Communications Inc. with an estimated fair market value of $923,150. Pursuant to the sale agreement, these shares cannot be sold for a period of 12 months from the date of the transaction. The total proceeds will be recognized as income from discontinued operations as the Vistar Telecommunications Inc. shares had been held by the Satellite Products business unit.

Quarterly Comparison

(unaudited, except for year-end amounts)

($ thousands, except EPS)	March 2000	March 1999	June 2000	June 1999	Sept. 2000	Sept. 1999	Dec. 2000	Dec. 1999	Total 2000	Total 1999
Revenues	33,003	33,948	33,705	36,075	32,505	34,365	35,204	32,237	134,417	136,625
Operating profit before restructuring costs	3,403	3,295	4,234	2,596	4,611	2,958	6,072	1,415	18,319	10,264
Restructuring costs								(11,600)		(11,600)
Interest income, net	1,141	827	852	1,697	1,042	1,150	1,053	1,349	4,088	5,023
Other income (expenses)	108	(291)	429	(223)	170	383	214	(519)	920	(650)
Income (loss) from continuing operations before income taxes and amortization of goodwill	4,652	3,831	5,515	4,070	5,823	4,491	7,339	(9,355)	23,327	3,037
Income tax (expense) recovery	(1,226)	(1,352)	(1,758)	(1,494)	(1,654)	(1,400)	(2,128)	3,149	(6,765)	(1,097)
Income (loss) from continuing operations before amortization of goodwill	3,426	2,479	3,757	2,576	4,169	3,091	5,211	(6,206)	16,562	1,940
Amortization of goodwill, net of tax	(190)	(195)	(176)	(181)	(210)	(187)	(183)	(188)	(759)	(751)
Income (loss) from continuing operations	3,236	2,284	3,581	2,395	3,959	2,904	5,028	(6,394)	15,803	1,189
Gain on divestiture or discontinuance of operations				51,749		3,322		1,155	–	56,226
Income (loss) from discontinued operations		1,909		(5,175)		(515)			–	(3,781)
Net income (loss)	**3,236**	**4,193**	**3,581**	**48,969**	**3,959**	**5,711**	**5,028**	**(5,239)**	**15,803**	**53,634**
Basic income (loss) per common shares										
Income (loss) from continuing operations before amortization of goodwill	$0.23	$0.17	$0.26	$0.17	$0.29	$0.21	$0.36	$(0.41)	1.15	0.13
Income (loss) from continuing operations	$0.22	$0.15	$0.25	$0.16	$0.27	$0.19	$0.35	$(0.43)	1.09	0.08
Net income (loss)	$0.22	$0.28	$0.25	$3.28	$0.27	$0.38	$0.35	$(0.35)	1.09	3.57
Fully diluted income (loss) per common share										
Income (loss) from continuing operations before amortization of goodwill	$0.22	$0.16	$0.24	$0.17	$0.27	$0.20	$0.34	$(0.41)	1.06	0.13
Income (loss) from continuing operations	$0.21	$0.15	$0.23	$0.15	$0.26	$0.19	$0.32	$(0.43)	1.02	0.08
Net income (loss)	$0.21	$0.27	$0.23	$3.04	$0.26	$0.36	$0.32	$(0.35)	1.02	3.27

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* Member of the Audit Committee
† Member of the Human Resources & Social Responsibility Committee
\# Member of the Corporate Governance Committee

Officers & Senior Management

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Chairman of the Board

COLIN D. WATSON
Vice Chairman

ANTHONY CAPUTO
President and Chief Executive Officer

ANTONIO FERNANDEZ-STOLL
Senior Vice President and Chief Financial Officer

FRANK S. CALLAGHAN
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Annual and Special Shareholders' Meeting

May 11, 2001
11:00 a.m.
TSE Conference Centre
The Exchange Tower
130 King Street West
Toronto, ON M5X 1J2

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